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BEFORE THE ARIZONA CORPORATION COMMISSION
RECEIVED

COMMISSIONERS

SUSAN BITTER SMITH- Chairman
BOB STUMP
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2015 MAY -7 P 12:19

AZ CORP COMMISSION
DOCKET CONTROL

ORIGINAL

IN THE MATTER OF THE APPLICATION OF
GLOBAL WATER - SANTA CRUZ WATER
COMPANY, INC. FOR AN EXTENSION OF
ITS EXISTING CERTIFICATE OF
CONVENIENCE AND NECESSITY.

DOCKET NO. W-20446A-14-0290

STAFF'S NOTICE OF ERRATA

On May 4, 2015, the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") filed its Staff Report. Referenced therein and a made a part thereof are three attachments: Exhibit 1 (Second Amended Legal Description); Exhibit 2 (Memorandum - Engineering); and Exhibit 3 (Memorandum - Financial Analysis). Subsequent to its filing, it was determined that these exhibits were inadvertently omitted from the docketed Staff Report.

Attached hereto are Exhibit 1, Exhibit 2 and Exhibit 3 which Staff requests be incorporated into its Staff Report docketed May 4, 2015.

RESPECTFULLY SUBMITTED this 7th day of May 2015.Arizona Corporation Commission
DOCKETED

MAY 07 2015

DOCKETED BY

Brian E. Smith, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

1 Original and thirteen (13) copies
2 of the foregoing filed this
3 7th day of May 2015 with:

4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington Street
7 Phoenix, Arizona 85007


8 Copy of the foregoing emailed/mailed
9 this 7th day of May 2015 to:


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MEMORANDUM

TO: Vicki Wallace
Executive Consultant III
Utilities Division

FROM: Lori H. Miller 
Programs & Projects Specialist
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: April 30, 2015

RE: GLOBAL WATER – SANTA CRUZ WATER COMPANY, INC. (DOCKET NO.
W-20446A-14-0290)
SECOND AMENDED LEGAL DESCRIPTION

The area requested by Global Water-Santa Cruz Water Company for a CC&N extension has been plotted using the Company's second amended legal description. Attached is the legal description which will replace (in its entirety) all previous legal descriptions.

Also attached is a copy of the map for your files.

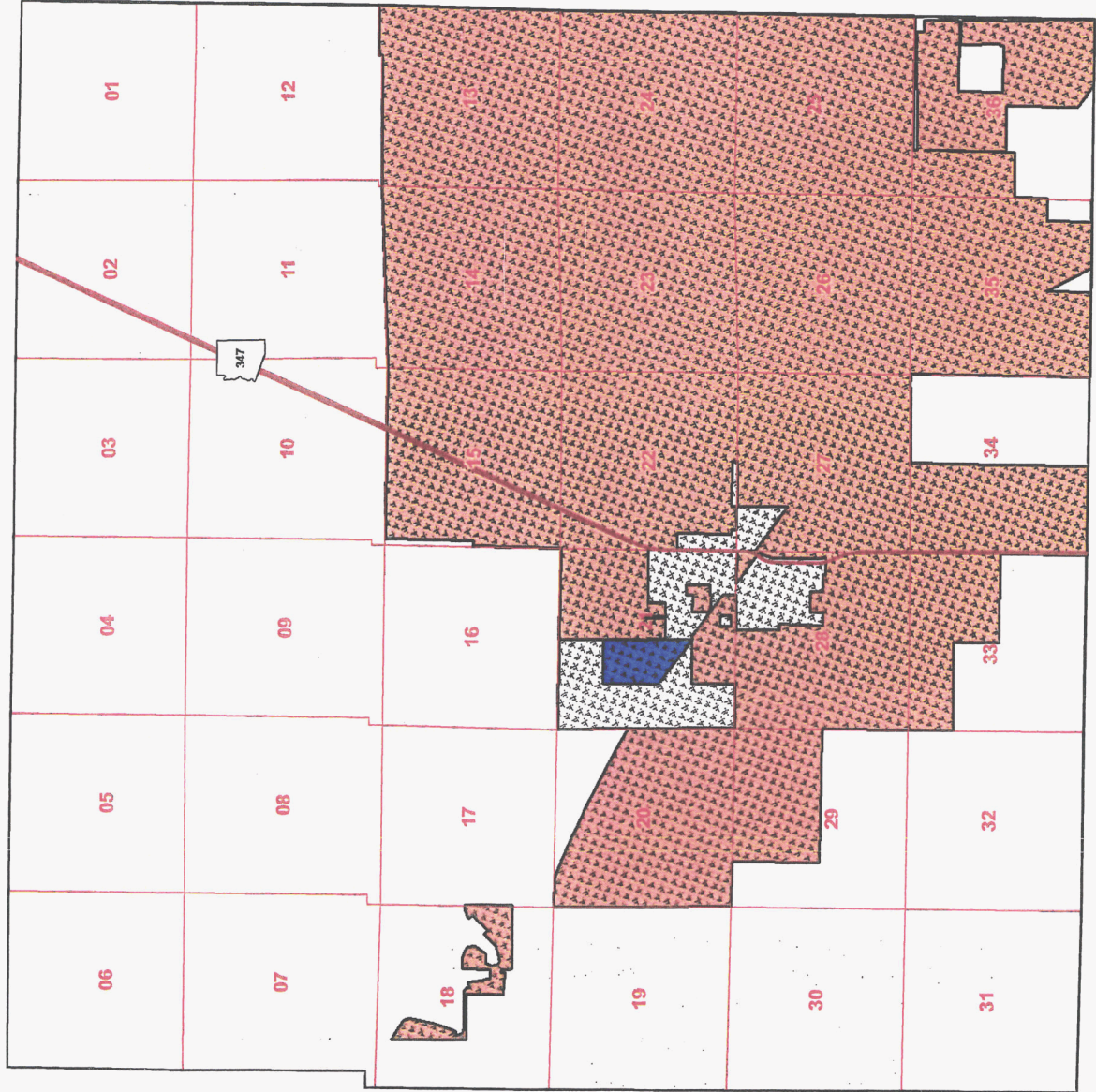
:lhm

Attachments

cc: Mr. Timothy J. Sabo
Ms. Deb Person (Hand Carried)
Mr. Jian Liu
File

RANGE 3 East

TOWNSHIP 4 South



SW-20445A (13)

Global Water - Palo Verde Utilities Company



W-20446A (11)

Global Water - Santa Cruz Water Company



(1)

Global Water - Santa Cruz Water Company
Docket No. W-204464A-14-0290
Application for Extension
(Second Amended Application)



Prepared by:
Arizona Corporation Commission
Utilities Division
Engineering Section/GIS Mapping
602-542-4251

TR4S3E 18 DEC 2014

EXHIBIT A
LEGAL DESCRIPTION

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE COUNTY OF PINAL, STATE OF ARIZONA, AND IS DESCRIBED AS FOLLOWS:

The Northeast quarter of the Southwest quarter; AND the Southeast quarter of the Northwest quarter of Section 21, Township 4 South, Range 3 East of the Gila and Salty River Meridian, Pinal County, Arizona, lying North of the Southern Pacific Railroad right of way.

Except those portions conveyed to Pinal County, Arizona in Quit Claim Deeds recorded in Docket 973, Page 345 and Docket 1018, Page 934; and

ALSO Except that portion described as follows:

Commencing at the Northwest corner of the Southeast quarter of the Northwest quarter of said Section 21;

Thence South along the West line of said Southeast quarter of the Northwest quarter of Section 21, a distance of 945.00 feet to the TRUE POINT OF BEGINNING;

Thence East along a line perpendicular to said West line, a distance of 70.00 feet to a point on a line 70 feet East of and parallel with the West line of the Southeast quarter of the Northwest quarter of Section 21;

Thence South along said line, a distance of 50.00 feet;

Thence West along a line perpendicular to the West line of said Southeast quarter of the Northwest quarter of Section 21, a distance of 70.00 feet to a point on said West line;

Thence North along the West line of said Southeast quarter of the Northwest quarter of Section 21, a distance of 50.00 feet to the POINT OF BEGINNING; and

ALSO Except that portion described as follows:

Commencing at the Arizona Department of Transportation aluminum cap in handhole marking the North quarter corner of said Section 21 from which the Arizona Department of Transportation aluminum cap in handhole marking the Northeast corner of said Section 21 bears North 89 degrees 38 minutes 51 seconds East, a distance of 2714.34 feet;

Thence South 00 degrees 31 minutes 04 seconds East, along the North-South mid-section line of said Section 21, a distance of 2066.95 feet to the TRUE POINT OF BEGINNING;

Thence continuing South 00 degrees 31 minutes 04 seconds East, along said North-South mid-section line of said Section 21, a distance of 563.37 feet to the 1 1/4 inch iron pipe marking the center of said Section 21;

Thence South 89 degrees 53 minutes 52 seconds West, along the East-West mid-section line of said Section 21, a distance of 30.00 feet to a point on a line which is parallel with and 30.00 feet Westerly, as measured at right angle from the North-South mid-section line of said Section 21;

Thence North 00 degrees 31 minutes 04 seconds West, along said parallel line, a distance of 371.06 feet to the beginning of a tangent curve of 630.00 foot radius, concave Southeasterly;

Thence Northeasterly, along said curve, through a central angle of 17 degrees 45 minutes 10 seconds, a distance of 195.20 feet to the POINT OF BEGINNING.

APN: 510-17-005E-6

EXHIBIT A (CONT'D)

Further excepting the following:

A strip of land 60 feet wide being 30 feet on either side of the Enid-Maricopa Highway survey as surveyed over and across the lands of Melvin S. Drake in section 21 T.4 S, R.3 E, G. & S.R.B.M. paralleling and adjacent to the North right-of-way line of the Southern Pacific Railroad and more particularly described as follows:

Beginning at the intersection of the center line of the above named survey at station 450+70 and the West line of the N.E.1/4 of the S.W.1/4 of section 21, which point lies 330 feet more or less South of the S.E. corner of the S.W.1/4 of the N.W.1/4 of section 21; running thence in a Southeasterly direction over and across the said section 21 a distance of 1650 feet more or less to a point marking the intersection of the center line of said survey at station 467+20 and the South line of the N.E.1/4 of the S.W.1/4 of section 21 which point lies 80 feet more or less West of the S.E. corner of the N.E.1/4 of the S.W.1/4 of section 21 containing 2.27 ACRES more or less, to be used for highway purposes only.

Also excepting:

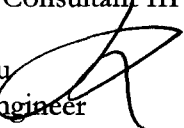
That part of the Northeast quarter of the Southwest quarter (NE $\frac{1}{4}$, SW $\frac{1}{4}$) of Section 21, Township 4 South, Range 3 East, G. & S.R.B. & M., more specifically described as follows:

A strip of land 20 feet in width lying parallel and adjacent to the North line of the existing 60 foot right-of-way .

MEMORANDUM

DATE: April 16, 2015

TO: Vicki Wallace
Executive Consultant III

FROM: Jian W. Liu 
Utilities Engineer

RE: Global Water-Santa Cruz Water Company
Docket No. W-20446A-14-0290 (Extension of Territory for water service)

Introduction and Background

On July 30, 2014, Global Water - Santa Cruz Water Company ("Santa Cruz" or "Company") filed with the Arizona Corporation Commission ("ACC" or "Commission") an application for approval to extend its Certificate of Convenience and Necessity ("CC&N") to provide water utility service by adding approximately 65 acres in an area adjacent to Santa Cruz's current CC&N service area¹. Santa Cruz provided water service to approximately 17,200 active customers within portions of Pinal County as of December 31, 2013.

Estrella Gin (the "Development") is approximately 65 acres of undeveloped land owned by the City of Maricopa ("City"). The Development consists of Commercial, Flex Office/Warehouse and Industrial Use with no planned Residential at this time. The City has scheduled Parcels 1 and 2 of Estrella Gin to be completed and occupied in 2015, and Parcels 3 and 4 to be completed and occupied in 2016. Santa Cruz does not need any additional plant facilities to provide service and intends to charge its existing rates and charges in the CC&N extension area pursuant to its filed tariffs.

Description of Existing Water System

The Santa Cruz water system facilities consist of 6 active wells with total pumping capacity of 11,315 gallons per minute ("GPM") for potable water use, 4 active wells with total pumping capacity of 4,530 GPM for construction, golf course, irrigation, and lake water use purposes only, 5 storage tanks with total storage capacity of 6,500,000 gallons, hydro-pneumatic systems and a distribution system serving approximately 17,200 active connections.

¹ On February 13, 2015, the Company amended its application to exclude all other properties, leaving only the property of Estrella Gin.

System Analysis

Staff concludes that the Santa Cruz water system has adequate production capacity and storage capacity to serve existing customers (including the proposed extension area) and reasonable growth.

Arizona Department of Environmental Quality ("ADEQ") Compliance

ADEQ regulates the Company's Water System under ADEQ Public Water System ("PWS") No. 11-131. ADEQ reported that the Santa Cruz is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ report dated December 4, 2014).

Arizona Department of Water Resources ("ADWR") Compliance

Santa Cruz is located in the Pinal Active Management Area ("AMA") and is subject to ADWR AMA reporting and conservation requirements. ADWR reported that Santa Cruz is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated March 26, 2015).

ACC Compliance

A check with the ACC Utilities Division Compliance Section showed no delinquent compliance items for the Company. (ACC Compliance Section Email dated April 16, 2015).

Conclusions

1. ADEQ reported that Santa Cruz is currently delivering water that meets water quality standards required by 40 C.F.R. 141 (Title 40 Code of Federal Regulations Part 141 National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4. (ADEQ report dated December 4, 2014).
2. ADWR reported that Santa Cruz is currently in compliance with departmental requirements governing water providers and/or community water systems. (ADWR compliance status report dated March 26, 2015).
3. A check with the ACC Utilities Division Compliance Section showed no delinquent compliance items for the Company. (ACC Compliance Section Email dated April 16, 2015).
4. Staff concludes that Santa Cruz has adequate production capacity and storage capacity to serve the existing customer base (including the proposed extension area) and reasonable growth.

MEMORANDUM

TO: Vicki Wallace
Executive Consultant III - Utilities Division

FROM: Teresa Hunsaker
Public Utilities Analyst II - Utilities Division *TH*

DATE: April 20, 2015

RE: IN THE MATTER OF THE APPLICATION OF GLOBAL WATER – SANTA CRUZ WATER COMPANY, INC. FOR AN EXTENSION OF ITS CERTIFICATE OF CONVENIENCE AND NECESSITY (DOCKET NO. W-20446A-14-0290)

INTRODUCTION

On July 30, 2014, Global Water – Santa Cruz Water Company, Inc. (“Santa Cruz” or “Company”) filed an application with the Arizona Corporation Commission (“Commission”) for an extension of its Certificate of Convenience and Necessity (“CC&N”) to provide public utility water service in Pinal County, Arizona. On February 13, 2015, the Company amended its application to only include the Estrella Gin property owned by the City of Maricopa. According to the Company, the Estrella Gin property covers approximately 65 acres and no offsite infrastructure is required for this property. Santa Cruz’s parent company is Global Water Resources, Inc. (“GWRI” or “Global Parent”), a Delaware C Corporation, and 48.1% of the shares of GWRI are held by GWR Global Water Resources Corp. (“GWRC”), a Canadian corporation incorporated under the *Business Corporations Act* (British Columbia).

FINANCIAL CONDITION AND CAPABILITY TO PROVIDE REQUESTED SERVICES

According to the application, the Company plans to construct and finance \$1,105,500 for Well Site No. 1 and \$421,032 for Estrella Gin On-Site Water System in three phases with a combination of advances in aid of construction (“AIAC”) and hook-up fees, which will be recognized as a contribution in aid of construction (“CIAC”). The Company stated in response to Staff Data Request No. TBH 1.5(a)(2) that Well Site No. 1 would not be required until 2020 and, thus, in its analysis Staff removed Well Site No. 1 from anticipated plant costs and associated expenses.

Pursuant to the provisions of Arizona Administrative Code § R-14-2-602(B)(5)(n) through R-14-2-602(B)(5)(s), the Company’s application support is to include discussions and descriptions of planned facility investments and revenue and expense estimates. The Company provided projections of its annual revenues and expenses for the first five years following the approval of the application and estimates of the value of its utility plant in service at the end of each of the first five

years following the approval of the Application. The Company projects an operating income for each of the years is as follows: Year 1, \$14,154; Year 2, \$73,239; Year 3, \$100,345; Year 4, \$130,402; and Year 5, \$153,916. However, Staff determined that the projected plant additions were outside the first five years, and therefore the associated expenses for the plant were adjusted. Staff determined that the operating income for each of the years is as follows: Year 1, \$14,154; Year 2, \$73,609; Year 3, \$101,456; Year 4, \$132,253; and Year 5, \$156,507.

The Company's application provided as Exhibit 8: "Statement of Financial Conditions". Exhibit 8 provided its unaudited balance sheet and income statement for the year ended December 31, 2013. Due to Decision No. 74364¹ dated February 26, 2014 (which resulted from the Company's last permanent rate proceeding), Staff requested the financial statements for the year ended December 31, 2014, in order to provide the most current financial condition and soundness of the Company. Staff has evaluated the unaudited balance sheet and income statement for the year ended December 31, 2014, and found that the information provided is in substantial compliance with Decision No. 74364. These financial statements² reported total assets of approximately \$96.5 million, total liabilities of approximately \$36.7 million and total equity of approximately \$59.8 million. The Company had a net operating income net of income taxes of approximately \$2.3 million.

Based upon a review of the financial statements provided, Staff found that Santa Cruz had a positive cash flow of \$5,586,083 during this financial reporting period (i.e., \$2,251,427 net operating income not inclusive of income taxes + \$3,334,656 in depreciation expense net of CIAC amortization) which is sufficient to fund Santa Cruz's operational needs and to provide water service in the requested CC&N service area.

CAPITAL STRUCTURE AND FINANCIAL CONDITION

The Company provided projected revenues based on the rate phase-in³ set forth in Commission Decision No. 74364. In Data Request No. TBH 1.2, Staff requested a complete copy of all Infrastructure Coordination and Financing Agreements ("ICFA") or ICFA type agreements covering the service area of the CC&N application. The Company's response stated that there are no ICFA agreements for the property included in the CC&N application. In Data Request No. TBH 1.3, Staff requested a complete copy of all Line Extension and/or any Main Extension Agreement ("MXA") for any projects that are part of this amended application. The Company's response stated that there is one MXA for the construction of a fire station by the City of Maricopa⁴, which is served on a contiguous basis from the existing CC&N service area. Additional MXA's will be required for the remainder of the property.

¹ W-01212A-12-0309 et al.

² The Balance Sheet for the period ending December 31, 2014, has a mathematical error in the Total Assets of \$94,969,388. The corrected amount of Total Assets is \$96,502,204. Staff is reporting the corrected amount.

³ Pursuant to the Settlement Agreement, Sub-Section 1.5 (Excerpts) - The rate phase-in for the Santa Cruz and Palo Verde Companies is over a period of eight years.

⁴ The City of Maricopa's Mayor Christian Price signed the Settlement Agreement on Page 16 therefore Global Water is to refrain from filing new rate applications until May 31, 2017. Section 2.1.1 of this Agreement discusses the Rate Stay-Out Agreement and Decision No. 74364 on Page 19 Line 18 1/2.

The Company stated in response to Staff Data Request No. TBH 1.5(a)(2) that “The Estrella Gin property is located adjacent to the Company’s current area and off-site lines already exist that can serve the property. The only off-site project related to this CC&N extension is a new domestic well. The Company currently has adequate production capacity using its current wells, and timing for the need for the new well is dependent on the timing of the Estrella Gin development and also the overall customer growth of the Company’s system. Thus, the exact date the new well will be placed in service is not known. However, the Company anticipates the well will be required in approximately 2020. The well will likely be financed through a combination of hookup fees and equity.” The Company’s financial information stated that 50 percent of the construction of the off-site infrastructures will be funded by hook-up fees.

Staff determined that the Company’s ultimate investment in Well No. 1 would not be included in its analysis because the well is not anticipated to be required until 2020. Therefore, Staff also concluded that the depreciation expense and CIAC amortization of Well No. 1 should also be disregarded since the plant will not be placed in service within five years.

A utility’s capital structure is an indicator of financial soundness. Investor owned utilities with low equity and high CIAC and/or AIAC balances may result in rate bases that are too small to be used to establish rates that are sufficient to generate enough revenue to pay for operating expenses and fund capital improvements without giving consideration to extraordinarily high rates of return to drive the revenue requirement model results. Consequently, Staff has determined that a financially sound utility company, on average, should have no more than 30 percent AIAC and/or CIAC in its capital structure.

The pro forma effect of Santa Cruz funding the entire plant expansion with AIAC would result in a capital structure mix comprised of 35.57 percent AIAC/CIAC, 62.03 percent equity, and 2.40 percent debt as shown in the table below.

	%	12/30/2014	Pro Forma Plant	Adjusted 12/30/2014	%
AIAC	33.84%	\$ 32,469,837	\$ 421,032	\$ 32,890,869	34.13%
CIAC	1.44%	\$ 1,384,628	\$ 0	\$ 1,384,628	1.44%
Equity	62.31%	\$ 59,778,004	\$ 0	\$ 59,778,004	62.03%
Debt	2.41%	\$ 2,308,473	\$ 0	\$ 2,308,473	2.40%
Total	100.00%	\$ 95,940,942	\$ 421,032	\$ 96,361,974	100.00%

Staff is concerned about a continuing over-reliance on AIAC and CIAC and as a result recommends that the Company be placed on notice that, to the extent reasonably possible, it should plan to fund future infrastructure needs with equity and long-term debt in order to bring more balance to its capital structure mix in accordance with the Settlement Agreement in Decision No. 74364. The Company’s long-term goal should be to have combined net AIAC and CIAC funding ratio significantly lower than current and pro-forma AIAC and CIAC ratios which exceed 30% of total capital.

Staff concludes that The Company has the financial capabilities to provide service to the requested extension area.

RECOMMENDATIONS

Staff recommends that:

1. To require Santa Cruz to charge its existing rates and charges in the proposed extension area.
2. The Company should be placed on notice that, to the extent possible, it should plan to fund future infrastructure needs with equity and long-term debt in order to bring more balance to its capital structure.